


COMMISSIONER'S COMMENTS




Patrick M. McQueen
Commissioner

It is my pleasure to present the 109th annual report of the Financial Institutions Bureau to Governor John Engler, the legislature and the citizens of the Great State of Michigan.

In the big picture, 1997 brought to us:

- A healthy fear of the “millennia bug.” With all of our advances in technology, we are apparently being “held hostage” by computer code that was never expected to bridge into the 21st century.
- Continued consolidation of the banking industry with no apparent end in sight. Along with continuing consolidation, interstate branching activities are taking hold especially among Michigan and our neighboring states to the south, Ohio and Indiana.
- A renewed interest in *de novo* state bank charters, with 6 new banks chartered in Michigan in 1997, for a total of 25 new banks since 1989. The state charter continues to be the charter of choice for new banks.
- A growing tendency for federal banking laws and regulations to preempt state laws. The Comptroller of the Currency, aided by federal courts, has been aggressive in overriding state law. A 1997 amendment to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 provides identical pre-emptions to a state-chartered bank operating in a host state. The end result is that each state has less and less influence over the institutions doing business within its boundaries.
- A renewed interest in the federal thrift charter. The Office of Thrift Supervision was expected to be legislated out of existence in the near term; however, renewed interest by numerous entities, including insurance companies, securities firms, industrial concerns and others has resulted in several pending and many approved charter applications that will forever alter the financial services landscape. Without any recent input from Congress, federal regulators, especially the Office of Thrift Supervision, are eliminating the barriers among commerce, securities underwriting, insurance, and banking.
- Unprecedented levels of competition among financial service providers for consumers’ business. Traditional sources of “banking” products, namely banks, thrifts, and credit unions, are now being challenged by retailers, brokers, utilities, and a host of others. In 1997 alone, for example, we licensed 959 new mortgage brokers, for a total of 1,440

mortgage brokers at year-end 1997, a nearly 200 per cent increase over year-end 1992.

In the Bureau, 1997 brought to us:

- A smaller Bureau. Ten FIB staffers took advantage of the state's early retirement program in 1997, the most recent being our long-time Chief Deputy Commissioner, Russell S. Kropschot. In keeping with Governor Engler's objective of reducing the size of state government, FIB responded to the retirements by reorganizing and streamlining the bureau. In fact, the bureau now has 123 employees, 13 fewer than when I took office in 1992.
- New leadership. With Russ Kropschot's retirement, Gary K. Mielock was named Chief Deputy Commissioner, responsible for overseeing most of our staff and an annual budget of over \$11 million. Prior to joining the Bureau in 1974, Gary was a trust officer at Manufacturers National Bank of Detroit. He has held progressively more responsible positions with the FIB, and was named Deputy Commissioner in 1981. In 1995 Gary was elected to a one-year term as Chairman of the Board of the National Association of State Credit Union Supervisors (NASCUS); he served as a member of the NASCUS Board for six years.
- A "flatter" organization chart. We abolished the Office of Regulation, the Office of Policy, and the Office of Administration, leaving six divisions whose directors report to newly-appointed Chief Deputy Commissioner Mielock.
- Establishment of a Risk Manager position to better identify and deal with elements of risk. Joe Petterson, formerly assistant director of the Bank and Trust Division, was named to that position.
- Greater reliance on the internet to communicate with our various constituents. Our homepage on the internet (<http://www.cis.state.mi.us/fib>) contains such information as our regulations, bulletins, legislative updates, lists of new banks, press releases, and staff information. We have recently added lists of all state-chartered depository lenders and other regulated financial service providers. Our customers now have the option of downloading any FIB form needed, from a charter application to a customer complaint form.
- A Bureau "Intranet" for internal use, which includes all bureau manuals, minutes, employee information, and strategic planning documents. We are well on our way to becoming a "paperless" Bureau!

CREDIT UNIONS

At year-end 1997, Michigan credit unions totaled 507, about two thirds of them state-chartered. Michigan's 320 state-chartered credit unions held assets totaling \$10.8 billion and provided financial services to about 2.5 million members. Our state continues to be a national leader in the credit union movement.

The AT&T Family Credit Union case, in which bankers filed a lawsuit challenging the National Credit Union Administration's interpretation of federal law as it related to multiple group fields of membership, culminated in a United States Supreme Court decision that limited membership in a federally-chartered credit union to a single group.

While the field-of-membership issue did not directly impact state-chartered credit unions, it has certainly rallied solid support for the credit union movement in the shape of HR 1151. The United States Congress was quick to respond to the Supreme Court decision

by crafting a legislative fix to the field of membership issue. HR 1151 received the support of 100 per cent of the Michigan delegation and a vast majority of House members; Senate concurrence is expected.

AUTOMATED SYSTEMS UNIT

There was a good deal of change within the Bureau's Credit Union Division last year. Long-time division director Michael N. Fitzgerald retired, and Roger W. Little was named to take his place. The management succession process was well planned and executed, and coincided with a restructuring of the division to include a corporate activities section and the EDP examination section.

The Credit Union Division conducted a customer survey during 1997, which showed that, overall, the division is effective in accomplishing our mission and in meeting constituent needs. The division completed the first conversion of a federal credit union to a state charter in over 16 years, and is at work on another conversion application. The division completed on-site examinations of all 321 state-chartered credit unions in 1997. There were no credit union failures during the year, and only 43 credit unions were listed on the Commissioner's "watch list."

BANKS

Banks continued to do very well in Michigan, with sound earnings and aggregate assets now exceeding \$87 billion. There were 169 banks chartered in Michigan at year end. The vast majority, 131, are state chartered. While bank mergers and consolidations continue, the trend is offset with a large increase in the number of *de novo* bank applications. During 1997 6 new banks were chartered, along with 3 federal thrift conversions to a state savings bank charter. I expect this trend to continue into

1998, as we currently have 10 new banks approved and another 4 new applications pending. *De novo* activity and merger activity continues at historically high levels.

As noted earlier, interstate branching activities are now commonplace among the states of Ohio, Indiana, and Michigan. Our capacity to measure banking activity in Michigan is now somewhat hindered by interstate banking and branching activities; further, exportation of banking law from a home state to a host state is becoming more commonplace. These trends also evidence the fact that each state has less influence over the financial services providers doing business within its boundaries.

These are generally very good times for Michigan's economy and we enjoy strong institutions. But for the first time since 1988, a state-chartered bank failed. OmniBank, a \$42 million bank headquartered in River Rouge, Michigan was declared insolvent and in an unsafe and unsound condition on April 9, 1998. The bank, originally chartered in 1919, suffered from poor management and supervision, poor loan underwriting, and a \$1 million kite loss. In cooperation with the FDIC, an auction of the assets and liabilities of OmniBank was held and a successful bidder was identified; the end result was that there were no losses to depositors, including the \$17 million in uninsured deposits of local cities and school districts. All of the deposit liabilities and many of the assets of the failed OmniBank were assumed by ShoreBank, Detroit, a newly-chartered bank headquartered in Detroit, Michigan.

CONSUMER FINANCE

Other financial services providers, particularly mortgage companies, have enjoyed a very strong year. Continuing low interest rates have contributed to a

boom in the industry; 1,300 new mortgage company applications were received and processed during the year ending December 31. FIB division staff have done an excellent job in processing this application volume, in addition to their work on license amendments and renewals. More information on this activity is in the narratives for Examination and Licensing and Enforcement divisions.

LEGISLATION

Longtime Deputy Commissioner and Policy Director Murray E. Brown retired from state service in 1997, and Peggy L. Bryson was named to take his place as the Bureau's policy expert.

Legislative achievements in 1997 included the enactment of a public funds package, amendments to the BIDCO Act, and a modernization of the Second Mortgage Act. Detail about the Bureau's legislative successes and our legislative agenda for the coming year is included elsewhere in this report.

What will FIB be doing in 1998? We have begun several initiatives and have others planned. They are:

- Modernization of the Michigan Banking Code;
- Removal of the affidavit filing requirement under PA 135;
- Refinement of the FIB strategic plan;
- Continuing investment in technology;
- Emphasis on the year 2000 compliance problem as it effects regulated institutions and the Bureau;
- A project that will result in a streamlined, more customer-friendly 1st and 2nd mortgage licensee application process.

Michigan financial institutions have enjoyed a very profitable year. Our state-chartered banks, credit unions, savings banks, mortgage companies, and other licensed lenders have helped to fuel the record growth in Michigan's economy through billions of dollars in commercial and personal loans. Prospects for the near future continue to be bright. The heightened competition within the newly defined financial services will continue to expand. Consumer choice among financial service providers, products, and services, at an all-time high, will continue to grow. The discipline of the marketplace, while sometimes appearing uneven, is working and will continue to work.

The need for more consumer education is evident. Well-informed consumers who shop for financial service providers and products are well served. Three examples of responsible and effective efforts in consumer education are the efforts of Economics America, Visa U.S.A., and Warren Schools Credit Union.

Economics America of Michigan is a private, non-profit alliance of business, education, government, and labor dedicated to providing Michigan school-teacher training programs and materials. The goal is to assist teachers in preparing students to become productive, responsible consumers with awareness of how to make, spend, save, or invest money. Visa U.S.A has launched a series of financial education programs on MTV to reach the young audience, and Warren Schools Credit Union, in partnership with Clintondale High School, has opened a branch at the school to serve current and former students. Trained students staff the credit union branch. Teens at the school are able to receive information on establishing credit, balancing a checkbook, and other financial services.